

Required fields are shown with yellow backgrounds and asterisks.

Filing by Fixed Income Clearing Corporation  
 Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial *	Amendment *	Withdrawal	Section 19(b)(2) *	Section 19(b)(3)(A) *	Section 19(b)(3)(B) *
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Pilot <input type="checkbox"/>			Rule		
Extension of Time Period for Commission Action * <input type="checkbox"/>		Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input checked="" type="checkbox"/> 19b-4(f)(4)	<input type="checkbox"/> 19b-4(f)(6)
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
Section 3C(b)(2) * <input type="checkbox"/>	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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**Description**

Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

Make Clarifications and Corrections to the Government Securities Division Rulebook, the Mortgage-Backed Securities Division Clearing Rules and the Mortgaged-Backed Securities Division EPN Rules

**Contact Information**

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name \* James Last Name \* Nygard  
 Title \* Director and Assistant General Counsel  
 E-mail \* jnygard@dtcc.com  
 Telephone \* (212) 470-1898 Fax

**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title \*)

Date 06/16/2017 Managing Director and Deputy General Counsel  
 By Nikki Poulos   
 (Name \*)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF website.

**Form 19b-4 Information \***

Add Remove View

The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

Add Remove View

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

Add Remove View

Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

Add Remove View

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

## 1. Text of Proposed Rule Change

(a) The Fixed Income Clearing Corporation (“FICC”) is filing this proposed rule change in order to make clarifications and corrections (including the addition of certain new definitions, as described in more detail below) to the Government Securities Division (“GSD”) Rulebook (the “GSD Rules”), Mortgage-Backed Securities Division (“MBSD”) Clearing Rules (the “MBSD Clearing Rules”) and MBSD EPN Rules (the “EPN Rules,” and collectively with the GSD Rules and the MBSD Clearing Rules, the “Rules”).<sup>1</sup> The proposed changes are attached hereto as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

## 2. Procedures of the Self-Regulatory Organization

(a) The proposed rule change was approved by FICC management on November 21, 2016 pursuant to delegated authority from FICC’s Board of Directors.

## 3. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

### (a) Purpose

The purpose of the proposed rule change is to make certain clarifications and corrections (including the addition of certain new definitions) to the Rules so that the Rules remain consistent and clear. The proposed changes consist only of clarifications and corrections (including the addition of certain new definitions) and do not change any of the rights or obligations of the GSD Members, MBSD Members or EPN Users.

### (i) *Proposed Changes to the GSD Rules*

FICC is proposing to make the following changes to the GSD Rules:

#### A. *Proposed Changes to GSD Rule 1 – Definitions*

(1) Delete the incorrect reference to “Section 1 of Rule 2” in the definition of “Bank Netting Member” and replace it with a reference to “Section 2 of Rule 2A.”

(2) Correct certain definitions relating to brokers and dealers and add certain defined terms in conjunction with such corrections, as described below (collectively, the changes referred to in this item (2) are referred to as the “Broker/Dealer Changes”):

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<sup>1</sup> Each capitalized term used herein and not otherwise defined shall have the meaning set forth in the GSD Rules, MBSD Clearing Rules or the EPN Rules, as applicable, available at <http://www.dtcc.com/legal/rules-and-procedures>.

- (i) FICC has identified that the existing terms “Registered Government Securities Brokers” and “Registered Government Securities Dealers” refer to brokers and dealers registered with the U.S. Securities and Exchange Commission (the “Commission”) under either Section 15 or Section 15C of the Securities Exchange Act of 1934, as amended (the “Act”), when such terms should only refer to brokers and dealers registered under Section 15C of the Act. The proposed rule change would correct these definitions in this regard.
- (ii) Two new terms, “Registered Broker” and “Registered Dealer,” would be added to GSD Rule 1 to address brokers and dealers that are registered under Section 15 of the Act.
- (iii) The term “Broker,” which is defined in part as a “Registered Government Securities Broker,” would be updated to add a reference to a “Registered Broker.” In addition, “or” is being added to reflect that a Broker would include a Registered Broker or a Registered Government Securities Broker. These corrections would make the definition consistent with the manner in which the term “Broker” is used throughout the GSD Rules and consistent with the corrections noted above in clauses (i) and (ii).
- (iv) The term “Dealer,” which is defined as a “Registered Government Securities Dealer,” would be updated to add a reference to a “Registered Dealer.” In addition, “or” is being added to reflect that a Dealer would include a Registered Dealer or a Registered Government Securities Dealer. These corrections would make the definition consistent with the manner in which the term “Dealer” is used throughout the GSD Rules and consistent with the corrections noted above in clauses (i) and (ii).

(3) Delete references to “Category 1 Inter-Dealer Broker” and “Category 2 Inter-Dealer Broker” in the definition of “Brokered Transaction” and replace them with “Inter-Dealer Broker,” make a grammatical change, and change the numbering in the definition to reflect the replacements. The concept of and all other references to Category 1 Inter-Dealer Brokers and Category 2 Inter-Dealer Brokers were intended to be removed from the GSD Rules in connection with the Commission’s approval of rule filing SR-FICC-2010-09,<sup>2</sup> however, a few references inadvertently remain in the current version of the GSD Rules.

(4) Delete the references to “Registered Government Securities Broker” and “Registered Government Securities Dealer” in the definition of “Covered Affiliate” and

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<sup>2</sup> Securities Exchange Act Release No. 63986 (February 28, 2011); 76 FR 12144 (March 4, 2011) (SR-FICC-2010-09).

replace each reference with “Broker” and “Dealer,” respectively. Currently, “Covered Affiliate” is defined in part to include certain “Registered Government Securities Brokers” and “Registered Government Securities Dealers,” however, this definition should also include certain “Registered Brokers” and “Registered Dealers,” as such terms are proposed to be added in this filing. The revised terms “Broker” and “Dealer” as proposed by this filing would also include Registered Brokers and Registered Dealers. This correction would make the definition consistent with the manner in which the term “Covered Affiliate” is used throughout the GSD Rules and consistent with the Broker/Dealer Changes noted above.

(5) Change the definition of the term “Designated Examining Authority” to replace the existing descriptions of brokers and dealers with “Broker or Dealer, as applicable.” The use of the updated terms “Broker” and “Dealer” as proposed above and the addition of “as applicable” would refer to brokers and dealers registered under Section 15 of the Act and under Section 15C of the Act in a more succinct manner, would ensure consistency with the manner in which “Designated Examining Authority” is used throughout the GSD Rules and would be consistent with the Broker/Dealer Changes noted above.

(6) Delete the repeated definitions of the terms “Eligible Letter of Credit” and “Eligible Netting Security.”

(7) Delete the reference to “whole percentage” and replace it with “two decimal places” in the definition of the term “Excess Capital Ratio” to reflect that the quotient is rounded to the nearest two decimal places. The proposed change would make the GSD Rules consistent with the MBSD Clearing Rules, which would have an equivalent definition.

(8) Delete the reference to “GSCC” and replace it with “the Corporation” in the definition of the “Full-Sized Trade” because GSCC is not a defined term that is used in the GSD Rules. GSCC refers to GSD’s predecessor, the Government Securities Clearing Corporation.<sup>3</sup>

(9) Add a new defined term for “Inter-Dealer Broker” consistent with the manner in which the term is currently used in the GSD Rules and consistent with the MBSD Clearing Rules, which have the equivalent definition.

(10) Delete the following definitions because they are not used in the GSD Rules: “Member Brokered Transaction,” “Non-Member Brokered Transaction,” and “Offsetting Position.”

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<sup>3</sup> FICC resulted from a merger of GSCC and the Mortgage-Backed Securities Clearing Corporation on January 1, 2003.

**B. *Proposed Changes to GSD Rule 2A – Initial Membership Requirements***

- (1) Delete the references to “Registered Government Securities Dealer” and replace them with “Dealer” in Section 2(a)(ii) to reflect the Broker/Dealer Changes noted above.
- (2) Correct two grammatical errors in Section 2(a)(iv).
- (3) Delete the references to “Duff & Phelps (“D&P”)” and “D&P” and replace them with “Fitch Ratings (“Fitch”)” and “Fitch,” respectively, in Section 4 because Duff & Phelps Credit Rating Co. was acquired by Fitch IBCA.
- (4) Delete the incorrect reference to “Rule 3” and replace it with “this Rule 2A” in Section 6.

**C. *Proposed Changes to GSD Rule 3 – Ongoing Membership Requirements***

Add “Ratio” after the reference to “Excess Capital” to read “Excess Capital Ratio” in Section 14. Section 14 requires a Netting Member to make a Clearing Fund deposit if its Excess Capital Ratio exceeds 1.0 because of the perceived risk posed by such Netting Member. Such deposit is calculated to bring the Clearing Fund to a desired level regarding the risk relating to such Netting Member. FICC currently calculates and has historically calculated this deposit using the Excess Capital Ratio as a multiple. Reference to Excess Capital as the multiple in the GSD Rules is incorrect – using Excess Capital as the multiple would result in a deposit requirement for a Netting Member that far exceeds the amount that FICC has determined is needed to increase the Clearing Fund to the desired level. The proposed change would make the GSD Rules consistent with the MBSD Clearing Rules, which have an equivalent formula in MBSD Clearing Rule 3 Section 12.

**D. *Proposed Changes to GSD Rule 4 – Clearing Fund and Loss Allocation***

- (1) Delete the incorrect reference to “Section 8” in the first paragraph of Section 5 and replace it with “Section 7.”
- (2) Delete the phrase “Category 1” before the words “Inter-Dealer Broker Netting Member” in Section 5 and make a grammatical change to reflect the deletion. The concept of and all other references to the term Category 1 were intended to be removed from the GSD Rules in connection with the Commission’s approval of rule filing SR-FICC-2010-09,<sup>4</sup> however, this reference inadvertently remains in the current version of the GSD Rules.

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<sup>4</sup> See supra note 2.

***E. Proposed Changes to GSD Rule 5 – Comparison System***

Capitalize the word “trades” in the phrase “Full-Sized trades” in Section 4 so that it reflects the defined term “Full-Sized Trade,” which is currently included in GSD Rule 1.<sup>5</sup>

***F. Proposed Changes to GSD Rule 15 – Special Provisions for Certain Netting Members***

(1) Remove a reserved section heading and renumber section headings that currently follow that heading to reflect its removal.

(2) Delete the phrase “or an Inter-Dealer Broker Netting Member” in the third sentence in proposed renumbered Section 2 because the term Inter-Dealer Broker Netting Member is inadvertently referenced twice.

***G. Proposed Changes to GSD Rule 17 – Netting and Settlement of Netting-Eligible Auction Purchases***

Remove a reserved section heading and renumber section headings that currently follow that heading to reflect its removal.

***(ii) Proposed Changes to the MBSD Clearing Rules***

FICC is proposing to make the following changes to the MBSD Clearing Rules:

***A. Proposed Changes to MBSD Clearing Rule 1 – Definitions***

(1) Add a new defined term for “Close of Business” consistent with the manner in which the term is currently used in the MBSD Clearing Rules and consistent with the GSD Rules which have the equivalent definition.

(2) Delete the word “whole” from the phrase “whole two decimal places” in the definition of “Excess Capital Ratio” to reflect the standard convention for referencing decimals.

***B. Proposed Changes to MBSD Clearing Rule 3 – Ongoing Membership Requirements***

Delete the phrase “close of business” and replace it with “Close of Business” in Section 2 so that it reflects the proposed new defined term “Close of Business,” which would be added in MBSD Clearing Rule 1.

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<sup>5</sup> “Full-Sized Trade” means a trade that is submitted to FICC in the full-size dollar amount in which it was executed as opposed to being submitted in an equivalent amount of \$50 million pieces and a single tail. See GSD Rule 1, supra note 1.

**C. *Proposed Changes to MBSD Clearing Rule 4 – Clearing Fund and Loss Allocation***

(1) Delete the references to “Total Amount” and replace them with “Required Fund Deposit” in Section 2(d) because Total Amount is not a defined term and the correct reference in that section should be to the amount a Clearing Member is required to deposit to the Clearing Fund pursuant to MBSD Clearing Rule 4, which is the “Required Fund Deposit.”<sup>6</sup>

(2) Delete the reference to “deposit” and replace it with “Required Fund Deposit” in Section 3 because the correct reference in that section should be to the amount a Clearing Member is required to deposit to the Clearing Fund pursuant to MBSD Clearing Rule 4, which is the “Required Fund Deposit.”

(3) Clarify that the minimum amount of cash a Clearing Member must deposit into its Required Fund Deposit is \$100,000 in Section 3. Section 2(d) refers to the same minimum Required Fund Deposit amount and the proposed change would make Section 3 consistent with Section 2(d).

(4) Delete the references to “close of business” and replace them with “Close of Business” in Section 5 and Section 8 so that they reflect the proposed new defined term “Close of Business,” which would be added in MBSD Clearing Rule 1.

**(iii) *Proposed Changes to the EPN Rules***

FICC is proposing to make the following changes to the EPN Rules:

**A. *Proposed Changes to Article 1 EPN Rule 1 – Definitions***

(1) Add a period after “Rule 1” to conform the punctuation in EPN Rule 1 with other EPN Rules.

(2) Delete the incorrect cross-reference to “Article VII” and replace it with “Article II” in the definition of “Account.”

(3) Delete the incorrect cross-reference to “Article VI” and replace it with “Article I” in the definition of “EPN Eligible Security.”

(4) Delete the incorrect cross-reference to “Article X” and replace it with “Article V” in the definition of “EPN Procedures.”

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<sup>6</sup> “Required Fund Deposit” means the amount a Clearing Member is required to deposit to the Clearing Fund pursuant to MBSD Clearing Rule 4. See MBSD Clearing Rule 1, supra note 1.



- (5) Delete the incorrect cross-references to “Articles VI, VII, VIII, IX and X of the Rules,” in the definition of “EPN Rules.” Such references to the Articles are unnecessary.
- (6) Move the definition of “EPN Service” so that it is in correct alphabetical order.
- (7) Delete the incorrect cross-reference to “Article VIII” and replace it with “Article III” in the definition of “EPN User Agreement.”
- (8) Delete the definition of “Membership and Risk Management Committee” because this term is not used in the EPN Rules.
- (9) Move the definition of “Messages” so that it is in correct alphabetical order.
- (10) Delete the incorrect cross-reference to “Article VII” and replace it with “Article II” in the definition of “Message Detail Report.”
- (11) Delete the incorrect reference to “Article VII” and replace it with “Article II” in the definition of “Message Summary Report.”
- (12) Delete the definition of “Operations and Planning Committee” because this term is not used in the EPN Rules.

***B. Proposed Changes to Article I EPN Rule 2 – EPN Eligible Securities***

Correct a grammatical error and delete the incorrect cross-reference to “Article X” and replace it with “Article V.”

***C. Proposed Changes to Article II – Messages Processed by the Corporation***

- (1) Add the following language to EPN Rule 1 Section 1: “The Corporation shall maintain one or more Accounts for each EPN User” because this language appears to have been inadvertently deleted from previous versions of the EPN Rules.
- (2) Delete the term “Reports” and replace it with lowercased “reports” in EPN Rule 2 Section 1 because Reports is not a defined term in the EPN Rules.

***D. Proposed Changes to Article III – EPN Users***

- (1) Delete the incorrect cross-reference to “Article X” and replace it with “Article V” and correct a grammatical error in EPN Rule 1 Section 5.
- (2) Delete the incorrect cross-reference to “Article X” and replace it with “Article V” in EPN Rule 1 Section 7.

- (3) Correct two grammatical errors in EPN Rule 2 Section 1.
- (4) Delete the incorrect cross-reference to “Article VIII” and replace it with “Article III” in EPN Rule 3 Section 1.

***E. Proposed Changes to Article V – Miscellaneous***

- (1) Add “EPN” before each reference to “Rules” because “EPN Rules” is the correct defined term.
- (2) Remove extra spaces between “Interested” and “Person” in the first paragraph of Rule 7 Section 1 and replace “a” with “an” before the proposed addition of “EPN” in the second paragraph of Rule 7 Section 1 for grammatical correctness.
- (3) Add “EPN” before each reference to “Procedures” because “EPN Procedures” is the correct defined term.
- (4) Add a tab space before certain paragraphs throughout Article V to conform the spacing in Article V to the other Articles in the EPN Rules.
- (5) Delete the reference to “minor rule violation” and replace it with “Minor Rule Violation” in EPN Rule 7 Section 3 so that it reflects the defined term, “Minor Rule Violation,” which is currently included in EPN Rule 7 Section 2, and correct the cross-reference in that Section to reflect that the term “Minor Rule Violation” is defined in Section 2 of EPN Rule 7 rather than Section 3.<sup>7</sup>
- (6) Delete the heading “SEC. 6. FINALITY OF CORPORATION ACTION” because it is misplaced, and reorder the numbering for each EPN Rule that currently follows that heading so that each such EPN Rule continues as part of Article V.
- (7) Correct a grammatical error in proposed renumbered EPN Rule 14(b)(ii).
- (8) Correct a grammatical error, and delete the incorrect cross-reference to “Article X” and replace it with “Article V” in proposed renumbered EPN Rule 14(c).

(b) Statutory Basis

Section 17A(b)(3)(F)<sup>8</sup> of the Act requires, in part, that the Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions. FICC believes that the proposed rule change has been designed to promote the prompt and accurate clearance and

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<sup>7</sup> “Minor Rule Violation” means a violation of the EPN Rules for which a fine may be assessed against the Interested Person in an amount not to exceed \$5,000. See Article V, EPN Rule 7, Section 2, supra note 1.

<sup>8</sup> 15 U.S.C. 78q-1(b)(3)(F).

settlement of securities transactions, consistent with Section 17A(b)(3)(F).<sup>9</sup> Specifically, the proposed rule change would clarify the meaning of certain provisions of the Rules, correct grammatical errors, correct cross-references and similar technical changes, which ensure that the Rules are consistent and clear. As such, FICC believes the proposed rule change would allow GSD Members, MBSD Members and EPN Users governed by the applicable Rules to have a better understanding of the Rules and thereby assist in promoting the prompt and accurate clearance and settlement of securities transactions.

#### **4. Self-Regulatory Organization's Statement on Burden on Competition**

FICC does not believe that the proposed rule change will have any impact on competition because the proposed changes to the Rules are clarifications and corrections (including the addition of certain new definitions), which would not change FICC's current practices or the rights or obligations of the GSD Members, MBSD Members or EPN Users bound by the applicable Rules. Therefore, the proposed changes should have no effect on the GSD Members, MBSD Members or EPN Users that are bound by the applicable Rules other than to foster a better understanding of the applicable Rules by such GSD Members, MBSD Members and EPN Users.

#### **5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others**

Written comments relating to the proposed rule change have not been solicited or received. FICC will notify the Commission of any written comments received by FICC.

#### **6. Extension of Time Period for Commission Action**

FICC does not consent to an extension of the time period specified in Section 19(b)(2) of the Act for Commission action.

#### **7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)**

(a) The proposed rule change is to take effect immediately upon filing pursuant to Section 19(b)(3)(A)<sup>10</sup> of the Act and subparagraph (f)(4) of Securities Exchange Act Rule 19b-4<sup>11</sup> thereunder.

(b) The proposed rule change effects a change in an existing service of a registered clearing agency that: (A) does not adversely affect the safeguarding of securities or funds in the custody or control of the clearing agency or for which it is responsible; and (B) does not significantly affect the respective rights or obligations of the clearing agency or persons using the

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<sup>9</sup> Id.

<sup>10</sup> 15 U.S.C 78s(b)(3)(A).

<sup>11</sup> 17 CFR 240.19b-4(f)(4).

service,<sup>12</sup> because the proposed rule change consists of corrections and clarifications (including the addition of certain new definitions) which would not change FICC's current practices or the rights or obligations of the GSD Members, MBSD Members or EPN Users bound by the applicable Rules. Therefore the proposed rule change does not adversely affect FICC's safeguarding of securities or funds, or significantly affect the rights or obligations of FICC or its participants.

(c) Not applicable.

(d) Not applicable.

**8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission**

The proposed rule change is not based on the rules of another self-regulatory organization.

**9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act**

Not applicable.

**10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act**

Not applicable.

**11. Exhibits**

Exhibit 1 – Not applicable.

Exhibit 1A – Notice of proposed rule change for publication in the Federal Register.

Exhibit 2 – Not applicable.

Exhibit 3 – Not applicable.

Exhibit 4 – Not applicable.

Exhibit 5 – Text of the proposed changes to the GSD Rules, the MBSD Clearing Rules and the EPN Rules.

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<sup>12</sup>

Id.

**EXHIBIT 1A**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-[\_\_\_\_\_]; File No. SR-FICC-2017-015)

[DATE]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Make Clarifications and Corrections to the Government Securities Division Rulebook, the Mortgage-Backed Securities Division Clearing Rules and the Mortgage-Backed Securities Division EPN Rules.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934, as amended (“Act”),<sup>1</sup> and Rule 19b-4<sup>2</sup> thereunder, notice is hereby given that on June \_\_, 2017, Fixed Income Clearing Corporation (“FICC”) filed with the U.S. Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared by the clearing agency. FICC filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and subparagraph (f)(4) of Rule 19b-4<sup>4</sup> thereunder. The proposed rule change was effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Clearing Agency’s Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change would make clarifications and corrections (including the addition of certain new definitions, as described in more detail below) to FICC’s

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>4</sup> 17 CFR 240.19b-4(f)(4).

Government Securities Division (“GSD”) Rulebook (the “GSD Rules”), Mortgage-Backed Securities Division (“MBSD”) Clearing Rules (the “MBSD Clearing Rules”) and MBSD EPN Rules (the “EPN Rules,” and collectively with the GSD Rules and the MBSD Clearing Rules, the “Rules”), as described in greater detail below.<sup>5</sup>

II. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the clearing agency included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The clearing agency has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

(A) Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of the proposed rule change is to make certain clarifications and corrections (including the addition of certain new definitions) to the Rules so that the Rules remain consistent and clear. The proposed changes consist only of clarifications and corrections (including the addition of certain new definitions) and do not change any of the rights or obligations of the GSD Members, MBSD Members or EPN Users.

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<sup>5</sup> Each capitalized term used herein and not otherwise defined shall have the meaning set forth in the GSD Rules, MBSD Clearing Rules or the EPN Rules, as applicable, available at <http://www.dtcc.com/legal/rules-and-procedures>.

(i) **Proposed Changes to the GSD Rules**

FICC is proposing to make the following changes to the GSD Rules:

**A. *Proposed Changes to GSD Rule 1 – Definitions***

(1) Delete the incorrect reference to “Section 1 of Rule 2” in the definition of “Bank Netting Member” and replace it with a reference to “Section 2 of Rule 2A.”

(2) Correct certain definitions relating to brokers and dealers and add certain defined terms in conjunction with such corrections, as described below (collectively, the changes referred to in this item (2) are referred to as the “Broker/Dealer Changes”):

- (i) FICC has identified that the existing terms “Registered Government Securities Brokers” and “Registered Government Securities Dealers” refer to brokers and dealers registered with the Commission under either Section 15 or Section 15C of the Act, when such terms should only refer to brokers and dealers registered under Section 15C of the Act. The proposed rule change would correct these definitions in this regard.
- (ii) Two new terms, “Registered Broker” and “Registered Dealer,” would be added to GSD Rule 1 to address brokers and dealers that are registered under Section 15 of the Act.
- (iii) The term “Broker,” which is defined in part as a “Registered Government Securities Broker,” would be

updated to add a reference to a “Registered Broker.” In addition, “or” is being added to reflect that a Broker would include a Registered Broker or a Registered Government Securities Broker. These corrections would make the definition consistent with the manner in which the term “Broker” is used throughout the GSD Rules and consistent with the corrections noted above in clauses (i) and (ii).

- (iv) The term “Dealer,” which is defined as a “Registered Government Securities Dealer,” would be updated to add a reference to a “Registered Dealer.” In addition, “or” is being added to reflect that a Dealer would include a Registered Dealer or a Registered Government Securities Dealer. These corrections would make the definition consistent with the manner in which the term “Dealer” is used throughout the GSD Rules and consistent with the corrections noted above in clauses (i) and (ii).

(3) Delete references to “Category 1 Inter-Dealer Broker” and “Category 2 Inter-Dealer Broker” in the definition of “Brokered Transaction” and replace them with “Inter-Dealer Broker,” make a grammatical change, and change the numbering in the definition to reflect the replacements. The concept of and all other references to Category 1 Inter-Dealer Brokers and Category 2 Inter-Dealer Brokers were intended to be removed from the GSD Rules in connection with the



Commission's approval of rule filing SR-FICC-2010-09,<sup>6</sup> however, a few references inadvertently remain in the current version of the GSD Rules

(4) Delete the references to "Registered Government Securities Broker" and "Registered Government Securities Dealer" in the definition of "Covered Affiliate" and replace each reference with "Broker" and "Dealer," respectively. Currently, "Covered Affiliate" is defined in part to include certain "Registered Government Securities Brokers" and "Registered Government Securities Dealers," however, this definition should also include certain "Registered Brokers" and "Registered Dealers," as such terms are proposed to be added in this filing. The revised terms "Broker" and "Dealer" as proposed by this filing would also include Registered Brokers and Registered Dealers. This correction would make the definition consistent with the manner in which the term "Covered Affiliate" is used throughout the GSD Rules and consistent with the Broker/Dealer Changes noted above.

(5) Change the definition of the term "Designated Examining Authority" to replace the existing descriptions of brokers and dealers with "Broker or Dealer, as applicable." The use of the updated terms "Broker" and "Dealer" as proposed above and the addition of "as applicable" would refer to brokers and dealers registered under Section 15 of the Act and under Section 15C of the Act in a more succinct manner, would ensure consistency with the manner in which "Designated Examining Authority" is used throughout the GSD Rules and would be consistent with the Broker/Dealer Changes noted above.

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<sup>6</sup> Securities Exchange Act Release No. 63986 (February 28, 2011); 76 FR 12144 (March 4, 2011) (SR-FICC-2010-09).

(6) Delete the repeated definitions of the terms “Eligible Letter of Credit” and “Eligible Netting Security.”

(7) Delete the reference to “whole percentage” and replace it with “two decimal places” in the definition of the term “Excess Capital Ratio” to reflect that the quotient is rounded to the nearest two decimal places. The proposed change would make the GSD Rules consistent with the MBSD Clearing Rules, which would have an equivalent definition.

(8) Delete the reference to “GSCC” and replace it with “the Corporation” in the definition of the “Full-Sized Trade” because GSCC is not a defined term that is used in the GSD Rules. GSCC refers to GSD’s predecessor, the Government Securities Clearing Corporation.<sup>7</sup>

(9) Add a new defined term for “Inter-Dealer Broker” consistent with the manner in which the term is currently used in the GSD Rules and consistent with the MBSD Clearing Rules, which have the equivalent definition.

(10) Delete the following definitions because they are not used in the GSD Rules: “Member Brokered Transaction,” “Non-Member Brokered Transaction,” and “Offsetting Position.”

***B. Proposed Changes to GSD Rule 2A – Initial Membership Requirements***

(1) Delete the references to “Registered Government Securities Dealer” and replace them with “Dealer” in Section 2(a)(ii) to reflect the Broker/Dealer Changes noted above.

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<sup>7</sup> FICC resulted from a merger of GSCC and the Mortgage-Backed Securities Clearing Corporation on January 1, 2003.

(2) Correct two grammatical errors in Section 2(a)(iv).

(3) Delete the references to “Duff & Phelps (“D&P”)” and “D&P” and replace them with “Fitch Ratings (“Fitch”)” and “Fitch,” respectively, in Section 4 because Duff & Phelps Credit Rating Co. was acquired by Fitch IBCA.

(4) Delete the incorrect reference to “Rule 3” and replace it with “this Rule 2A” in Section 6.

**C. *Proposed Changes to GSD Rule 3 – Ongoing Membership Requirements***

Add “Ratio” after the reference to “Excess Capital” to read “Excess Capital Ratio” in Section 14. Section 14 requires a Netting Member to make a Clearing Fund deposit if its Excess Capital Ratio exceeds 1.0 because of the perceived risk posed by such Netting Member. Such deposit is calculated to bring the Clearing Fund to a desired level regarding the risk relating to such Netting Member. FICC currently calculates and has historically calculated this deposit using the Excess Capital Ratio as a multiple. Reference to Excess Capital as the multiple in the GSD Rules is incorrect – using Excess Capital as the multiple would result in a deposit requirement for a Netting Member that far exceeds the amount that FICC has determined is needed to increase the Clearing Fund to the desired level. The proposed change would make the GSD Rules consistent with the MBSD Clearing Rules, which have an equivalent formula in MBSD Clearing Rule 3 Section 12.

**D. *Proposed Changes to GSD Rule 4 – Clearing Fund and Loss Allocation***

(1) Delete the incorrect reference to “Section 8” in the first paragraph of Section 5 and replace it with “Section 7.”

(2) Delete the phrase “Category 1” before the words “Inter-Dealer Broker Netting Member” in Section 5 and make a grammatical change to reflect the deletion. The concept of and all other references to the term Category 1 were intended to be removed from the GSD Rules in connection with the Commission’s approval of rule filing SR-FICC-2010-09,<sup>8</sup> however, this reference inadvertently remains in the current version of the GSD Rules.

***E. Proposed Changes to GSD Rule 5 – Comparison System***

Capitalize the word “trades” in the phrase “Full-Sized trades” in Section 4 so that it reflects the defined term “Full-Sized Trade,” which is currently included in GSD Rule 1.<sup>9</sup>

***F. Proposed Changes to GSD Rule 15 – Special Provisions for Certain Netting Members***

(1) Remove a reserved section heading and renumber section headings that currently follow that heading to reflect its removal.

(2) Delete the phrase “or an Inter-Dealer Broker Netting Member” in the third sentence in proposed renumbered Section 2 because the term Inter-Dealer Broker Netting Member is inadvertently referenced twice.

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<sup>8</sup> See supra note 6.

<sup>9</sup> “Full-Sized Trade” means a trade that is submitted to FICC in the full-size dollar amount in which it was executed as opposed to being submitted in an equivalent amount of \$50 million pieces and a single tail. See GSD Rule 1, supra note 5.

**G. *Proposed Changes to GSD Rule 17 – Netting and Settlement of Netting-Eligible Auction Purchases***

Remove a reserved section heading and renumber section headings that currently follow that heading to reflect its removal.

**(ii) *Proposed Changes to the MBSD Clearing Rules***

FICC is proposing to make the following changes to the MBSD Clearing Rules:

**A. *Proposed Changes to MBSD Clearing Rule 1 – Definitions***

(1) Add a new defined term for “Close of Business” consistent with the manner in which the term is currently used in the MBSD Clearing Rules and consistent with the GSD Rules which have the equivalent definition.

(2) Delete the word “whole” from the phrase “whole two decimal places” in the definition of “Excess Capital Ratio” to reflect the standard convention for referencing decimals.

**B. *Proposed Changes to MBSD Clearing Rule 3 – Ongoing Membership Requirements***

Delete the phrase “close of business” and replace it with “Close of Business” in Section 2 so that it reflects the proposed new defined term “Close of Business,” which would be added in MBSD Clearing Rule 1.

**C. *Proposed Changes to MBSD Clearing Rule 4 – Clearing Fund and Loss Allocation***

(1) Delete the references to “Total Amount” and replace them with “Required Fund Deposit” in Section 2(d) because Total Amount is not a defined term and the correct reference in that section should be to the amount a Clearing

Member is required to deposit to the Clearing Fund pursuant to MBSD Clearing Rule 4, which is the “Required Fund Deposit.”<sup>10</sup>

(2) Delete the reference to “deposit” and replace it with “Required Fund Deposit” in Section 3 because the correct reference in that section should be to the amount a Clearing Member is required to deposit to the Clearing Fund pursuant to MBSD Clearing Rule 4, which is the “Required Fund Deposit.”

(3) Clarify that the minimum amount of cash a Clearing Member must deposit into its Required Fund Deposit is \$100,000 in Section 3. Section 2(d) refers to the same minimum Required Fund Deposit amount and the proposed change would make Section 3 consistent with Section 2(d).

(4) Delete the references to “close of business” and replace them with “Close of Business” in Section 5 and Section 8 so that they reflect the proposed new defined term “Close of Business,” which would be added in MBSD Clearing Rule 1.

***(iii) Proposed Changes to the EPN Rules***

FICC is proposing to make the following changes to the EPN Rules:

***A. Proposed Changes to Article 1 EPN Rule 1 – Definitions***

(1) Add a period after “Rule 1” to conform the punctuation in EPN Rule 1 with other EPN Rules.

(2) Delete the incorrect cross-reference to “Article VII” and replace it with “Article II” in the definition of “Account.”

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<sup>10</sup> “Required Fund Deposit” means the amount a Clearing Member is required to deposit to the Clearing Fund pursuant to MBSD Clearing Rule 4. See MBSD Clearing Rule 1, supra note 5.

(3) Delete the incorrect cross-reference to “Article VI” and replace it with “Article I” in the definition of “EPN Eligible Security.”

(4) Delete the incorrect cross-reference to “Article X” and replace it with “Article V” in the definition of “EPN Procedures.”

(5) Delete the incorrect cross-references to “Articles VI, VII, VIII, IX and X of the Rules,” in the definition of “EPN Rules.” Such references to the Articles are unnecessary.

(6) Move the definition of “EPN Service” so that it is in correct alphabetical order.

(7) Delete the incorrect cross-reference to “Article VIII” and replace it with “Article III” in the definition of “EPN User Agreement.”

(8) Delete the definition of “Membership and Risk Management Committee” because this term is not used in the EPN Rules.

(9) Move the definition of “Messages” so that it is in correct alphabetical order.

(10) Delete the incorrect cross-reference to “Article VII” and replace it with “Article II” in the definition of “Message Detail Report.”

(11) Delete the incorrect reference to “Article VII” and replace it with “Article II” in the definition of “Message Summary Report.”

(12) Delete the definition of “Operations and Planning Committee” because this term is not used in the EPN Rules.

**B. *Proposed Changes to Article I EPN Rule 2 – EPN Eligible Securities***

Correct a grammatical error and delete the incorrect cross-reference to “Article X” and replace it with “Article V.”

**C. *Proposed Changes to Article II – Messages Processed by the Corporation***

(1) Add the following language to EPN Rule 1 Section 1: “The Corporation shall maintain one or more Accounts for each EPN User” because this language appears to have been inadvertently deleted from previous versions of the EPN Rules.

(2) Delete the term “Reports” and replace it with lowercased “reports” in EPN Rule 2 Section 1 because Reports is not a defined term in the EPN Rules.

**D. *Proposed Changes to Article III – EPN Users***

(1) Delete the incorrect cross-reference to “Article X” and replace it with “Article V” and correct a grammatical error in EPN Rule 1 Section 5.

(2) Delete the incorrect cross-reference to “Article X” and replace it with “Article V” in EPN Rule 1 Section 7.

(3) Correct two grammatical errors in EPN Rule 2 Section 1.

(4) Delete the incorrect cross-reference to “Article VIII” and replace it with “Article III” in EPN Rule 3 Section 1.

**E. *Proposed Changes to Article V – Miscellaneous***

(1) Add “EPN” before each reference to “Rules” because “EPN Rules” is the correct defined term.



(2) Remove extra spaces between “Interested” and “Person” in the first paragraph of Rule 7 Section 1 and replace “a” with “an” before the proposed addition of “EPN” in the second paragraph of Rule 7 Section 1 for grammatical correctness.

(3) Add “EPN” before each reference to “Procedures” because “EPN Procedures” is the correct defined term.

(4) Add a tab space before certain paragraphs throughout Article V to conform the spacing in Article V to the other Articles in the EPN Rules.

(5) Delete the reference to “minor rule violation” and replace it with “Minor Rule Violation” in EPN Rule 7 Section 3 so that it reflects the defined term, “Minor Rule Violation,” which is currently included in EPN Rule 7 Section 2, and correct the cross-reference in that Section to reflect that the term “Minor Rule Violation” is defined in Section 2 of EPN Rule 7 rather than Section 3.<sup>11</sup>

(6) Delete the heading “SEC. 6. FINALITY OF CORPORATION ACTION” because it is misplaced, and reorder the numbering for each EPN Rule that currently follows that heading so that each such EPN Rule continues as part of Article V.

(7) Correct a grammatical error in proposed renumbered EPN Rule 14(b)(ii).

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<sup>11</sup> “Minor Rule Violation” means a violation of the EPN Rules for which a fine may be assessed against the Interested Person in an amount not to exceed \$5,000. See Article V, EPN Rule 7, Section 2, supra note 5.

(8) Correct a grammatical error, and delete the incorrect cross-reference to “Article X” and replace it with “Article V” in proposed renumbered EPN Rule 14(c).

2. Statutory Basis

Section 17A(b)(3)(F)<sup>12</sup> of the Act requires, in part, that the Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions. FICC believes that the proposed rule change has been designed to promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F).<sup>13</sup> Specifically, the proposed rule change would clarify the meaning of certain provisions of the Rules, correct grammatical errors, correct cross-references and similar technical changes, which ensure that the Rules are consistent and clear. As such, FICC believes the proposed rule change would allow GSD Members, MBSD Members and EPN Users governed by the applicable Rules to have a better understanding of the Rules and thereby assist in promoting the prompt and accurate clearance and settlement of securities transactions.

(B) Clearing Agency’s Statement on Burden on Competition

FICC does not believe that the proposed rule change will have any impact on competition because the proposed changes to the Rules are clarifications and corrections (including the addition of certain new definitions), which would not change FICC’s current practices or the rights or obligations of the GSD Members, MBSD Members or EPN Users bound by the applicable Rules. Therefore, the proposed changes should have

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<sup>12</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>13</sup> Id.

no effect on the GSD Members, MBSB Members or EPN Users that are bound by the applicable Rules other than to foster a better understanding of the applicable Rules by such GSD Members, MBSB Members and EPN Users.

(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments relating to the proposed rule change have not been solicited or received. FICC will notify the Commission of any written comments received by FICC.

III. Date of Effectiveness of the Proposed Rule Change, and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)<sup>14</sup> of the Act and subparagraph (f)(4) of Rule 19b-4<sup>15</sup> thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or

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<sup>14</sup> 15 U.S.C 78s(b)(3)(A).

<sup>15</sup> 17 CFR 240.19b-4(f)(4).

- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-FICC-2017-015 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549.

All submissions should refer to File Number SR-FICC-2017-015. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of FICC and on DTCC's website (<http://dtcc.com/legal/sec-rule-filings.aspx>). All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FICC-2017-015 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>16</sup>

Secretary

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<sup>16</sup> 17 CFR 200.30-3(a)(12).

indicates proposed added language.

indicates proposed deleted language.

indicates proposed language added in connection with a separate proposal that has not yet been approved (SR-FICC-2017-010, filed on April 11, 2017).

indicates proposed language deleted in connection with a separate proposal that has not yet been approved (SR-FICC-2017-010, filed on April 11, 2017).

## **FIXED INCOME CLEARING CORPORATION**

## **GOVERNMENT SECURITIES DIVISION RULEBOOK**

## RULE 1 – DEFINITIONS

Unless the context requires otherwise, the terms defined in this Rule shall, for all purposes of these Rules, have the meanings herein specified.

\* \* \*

### Bank Netting Member

The term "Bank Netting Member" shall have the meaning given that term in ~~Section 1 of Rule 2~~ Section 2 of Rule 2A.

\* \* \*

### Broker

The term "Broker" means a Member that is a Registered Broker or Registered Government Securities Broker and that is regularly engaged in the business of effecting transactions in Eligible Securities for the account of other Members.

\* \* \*

### Brokered Transaction

The term "Brokered Transaction" means any transaction, including a Repo Transaction, calling for the delivery of an Eligible Netting Security, or the posting of cash or an Eligible Netting Security as collateral, the data on which has been submitted to the Corporation by Members, to which transaction (i) an ~~Category 1 Inter-Dealer Broker,~~ (ii) a ~~Category 2 Inter-Dealer Broker~~ Inter-Dealer Broker, or (iii) a Non-IDB Repo Broker with respect to activity in its Segregated Repo Account, is a party. The mere fact that an Inter-Dealer Broker, or a Non-IDB Repo Broker with respect to activity in its Segregated Repo Account, has submitted data to the Corporation on a transaction is not, solely of itself, determinative of whether such Broker is a party to the transaction.

\* \* \*

### Covered Affiliate

The term "Covered Affiliate" means an Affiliate of a Netting Member that: (1) is not itself a Netting Member; (2) is not a Foreign Person; and (3) is a ~~Registered Government Securities Broker, Registered Government Securities Dealer, Broker, Dealer,~~ bank, trust company, and/or Futures Commission Merchant.

\* \* \*

## Dealer

The term "Dealer" means a Member that is a Registered Dealer or Registered Government Securities Dealer.

\* \* \*

## Designated Examining Authority

The term "Designated Examining Authority" shall mean (1) in the case of a Broker or Dealer, as applicable~~broker or dealer registered pursuant to Section 15 of the Exchange Act or a Government Securities Broker or Dealer registered pursuant to Section 15C of the Exchange Act~~ that belongs to only one Self-Regulatory Organization, such Self-Regulatory Organization, and (2) in the case of a Broker or Dealer, as applicable~~broker or dealer registered pursuant to Section 15 of the Exchange Act or a Government Securities Broker or Dealer registered pursuant to Section 15C of the Exchange Act~~ that belongs to more than one Self-Regulatory Organization, the Self-Regulatory Organization designated by the SEC pursuant to Section 17(d) of the Exchange Act as the entity with responsibility for examining such Broker or Dealer~~broker or dealer or such Government Securities Broker or Dealer~~.

\* \* \*

## Eligible Letter of Credit

The term "Eligible Letter of Credit" means a letter of credit that:

- (i) contains the unqualified commitment of such issuer to pay a specified sum of money upon demand (properly drawn under the letter of credit);
- (ii) is irrevocable; and
- (iii) is in a form, and contains such other terms and conditions, as may be required by the Corporation.

## Eligible Netting Security

The term "Eligible Netting Security" means an Eligible Security that the Corporation has designated as eligible for netting. Notwithstanding the previous sentence, a GCF Repo Security shall only be deemed to be an Eligible Netting Security in connection with GCF Repo Transactions. Without limiting the generality of the foregoing, a GCF Repo Security shall not be an Eligible Netting Security: (i) for comparison, netting and/or settlement in connection with any transaction other than a GCF Repo Transaction, and (ii) shall not be eligible for Clearing Fund purposes unless it falls into the definition of an Eligible Clearing Fund Security.



### **Eligible Letter of Credit**

~~The term "Eligible Letter of Credit" means a letter of credit that:~~

- ~~(i) contains the unqualified commitment of such issuer to pay a specified sum of money upon demand (properly drawn under the letter of credit);~~
- ~~(ii) is irrevocable; and~~
- ~~(iii) is in a form, and contains such other terms and conditions, as may be required by the Corporation.~~

### **Eligible Netting Security**

~~The term "Eligible Netting Security" means an Eligible Security that the Corporation has designated as eligible for netting. Notwithstanding the previous sentence, a GCF Repo Security shall only be deemed to be an Eligible Netting Security in connection with GCF Repo Transactions. Without limiting the generality of the foregoing, a GCF Repo Security shall not be an Eligible Netting Security: (i) for comparison, netting and/or settlement in connection with any transaction other than a GCF Repo Transaction, and (ii) shall not be eligible for Clearing Fund purposes unless it falls into the definition of an Eligible Clearing Fund Security.~~

\* \* \*

### **Excess Capital Ratio**

The term "Excess Capital Ratio" means, the quotient, rounded to the nearest ~~whole percentage~~ **two decimal places**, resulting from dividing the amount of a Netting Member's VaR Charge by the amount of its Excess Capital that it maintains.

\* \* \*

### **Full-Sized Trade**

The term "Full-Sized Trade" means a trade that is submitted to ~~the Corporation~~ **GSCC** in the full-size dollar amount in which it was executed as opposed to being submitted in an equivalent amount of \$50 million pieces and a single tail.

\* \* \*

### **Interbank Pledging Member**

The term "Interbank Pledging Member" means a Member who has granted to the Corporation a security interest in a securities account or deposit account to secure such Member's obligations to the Corporation in respect of such Member's Prorated Interbank Cash Amount.

**Inter-Dealer Broker**

**The term "Inter-Dealer Broker" means a Person which is in the business of buying and selling securities as agent on behalf of dealers and is registered under Section 15 or Section 15C of the Exchange Act.**

\* \* \*

**~~Member Brokered Transaction~~**

**~~The term "Member Brokered Transaction" means any Brokered Transaction other than a Non-Member Brokered Transaction.~~**

\* \* \*

**~~Non-Member Brokered Transaction~~**

**~~The term "Non-Member Brokered Transaction" means a Brokered Transaction involving two trades: (1) to which a Category 2 Inter-Dealer Broker is a party on the buy side of one of the trades and on the sell side of the other trade, and (2) one of which involves such Category 2 Inter-Dealer Broker and a Non-Member.~~**

\* \* \*

**~~Offsetting Position~~**

**~~The term "Offsetting Position" shall have the meaning given that term in Section 5 of Rule 17.~~**

\* \* \*

**Refunding Issue Date**

The term "Refunding Issue Date" means the most recent issue date for a quarterly refunding by the Treasury Department.

**Registered Broker**

**The term "Registered Broker" means a broker that is registered with the SEC under Section 15 of the Exchange Act.**

\* \* \*

**Registered Clearing Agency Netting Member**

The term "Registered Clearing Agency Netting Member" shall have the meaning given that term in Section 2 of Rule 2A.

### Registered Dealer

The term "Registered Dealer" means a dealer that is registered with the SEC under Section 15 of the Exchange Act.

### Registered Government Securities Broker

The term "Registered Government Securities Broker" means a Government Securities Broker that is registered with the SEC under ~~either Section 15 or~~ Section 15C of the Exchange Act.

### Registered Government Securities Dealer

The term "Registered Government Securities Dealer" means either:

- (i) a Government Securities Dealer that is registered with the SEC under ~~Section 15 or~~ Section 15C of the Exchange Act or
- (ii) a bank or trust company that has filed with the Appropriate Regulatory Authority under Section 15C of the Exchange Act written notice that it is a Government Securities Dealer.

\* \* \*

## **RULE 2A - INITIAL MEMBERSHIP REQUIREMENTS**

\* \* \*

### Section 2 – Eligibility for Membership: Netting Members

- (a) Eligibility for Netting membership shall be as follows:

- (i) A Person shall be eligible to apply to become a Bank Netting Member if it is a bank or trust company chartered as such under the laws of the United States, or a State thereof, or is a bank or trust company established or chartered under the laws of a non-U.S. jurisdiction and participates in the Corporation through its U.S. branch or agency. A bank or trust company that is admitted to membership in the Netting System pursuant to these Rules, and whose membership in the Netting System has not been terminated, shall be a Bank Netting Member.

- (ii) A Person shall be eligible to apply to become a Dealer Netting Member if it is a ~~Registered Government Securities Dealer~~ Dealer and is not a bank or trust company. A ~~Registered Government Securities Dealer~~ Dealer that is admitted to membership in the Netting System pursuant to these Rules, and whose membership in the Netting System has not been terminated, shall be a Dealer Netting Member.

- (iii) A Person shall be eligible to apply to become a Futures Commission Merchant Netting Member if it is a Futures Commission Merchant. A Futures Commission

Merchant that is admitted to membership in the Netting System pursuant to these Rules, and whose membership in the Netting System has not been terminated, shall be a Futures Commission Merchant Netting Member.

(iv) A Person shall be eligible to apply to become an Inter-Dealer Broker Netting Member if it is an an Inter-Dealer Broker. An Inter-Dealer Broker that is admitted to membership in the Netting System pursuant to these Rules, and whose membership in the Netting System has not been terminated, shall be an Inter-Dealer Broker Netting Member.

\* \* \*

#### Section 4 - Membership Qualifications and Standards for Netting Members

Subject to the limitations set forth in this Rule, the Board shall approve an application to become a Netting Member by a Person that is eligible to apply to become a Netting Member pursuant to this Rule upon a determination that such applicant meets the following requirements:

\* \* \*

(b) Financial Responsibility - The applicant shall:

\* \* \*

(ii) satisfy the following minimum financial requirements:

(A) for applicants whose Financial Statements are prepared in accordance with U.S. generally accepted accounting principles:

\* \* \*

(8) if the applicant is applying to become an Insurance Company Netting Member, it must have, as of the end of the month prior to the effective date of its membership: (1) an A.M. Best ("Best") rating of "A-" or better, (2) a rating by at least one of the other three major rating agencies (Standard & Poor's ("S&P"), Moody's, and ~~Duff & Phelps ("D&P")~~ Fitch Ratings ("Fitch")) of at least- "A-" or "A3", as applicable, (3) no rating by S&P, Moody's, and ~~D&P~~ Fitch of less than "A-" or "A", as applicable, (4) a risk-based capital ratio, as applicable to Insurance Companies, of at least 200 percent, and (5) statutory capital (consisting of adjusted policyholders' surplus plus the company's asset valuation reserve) of no less than \$500 million; and

\* \* \*

#### Section 6 – Evaluation of Applicant

An application to become any type of Member shall first be reviewed by the Corporation. The Corporation may approve applications for Comparison-Only membership. With regard to

Netting membership, the Corporation shall recommend approval or disapproval of the application to the Board. Except as otherwise provided in ~~Rule 3~~ this Rule 2A or in Rule 15, Corporation or Board approval of an application for membership shall constitute approval only of the type of membership specifically applied for.

\* \* \*

### **RULE 3 – ONGOING MEMBERSHIP REQUIREMENTS**

\* \* \*

#### Section 14 – Excess Capital Premium

If a Netting Member maintains an Excess Capital Ratio greater than 1.0, then the Corporation may require the Netting Member to make and maintain an additional deposit to the Clearing Fund in an amount equal to the product of its Excess Capital Differential multiplied by its Excess Capital Ratio. Any such additional deposit required by the Corporation shall be considered included as part of the Netting Member's Required Fund Deposit.

The Corporation also will reserve the right to: (i) collect an amount less than the Excess Capital Premium (including no premium) based on specific circumstances (such as a Netting Member being subject to an unexpected haircut or capital charge that does not fundamentally change its risk profile), and (ii) return all or a portion of the Excess Capital Premium (or such lesser amount) if it believes that the Netting Member's risk profile does not require the maintenance of that amount.<sup>‡</sup>

\* \* \*

### **RULE 4 - CLEARING FUND AND LOSS ALLOCATION**

\* \* \*

#### Section 5 - Use of Deposits and Payments

The use of the Clearing Fund deposits shall be limited to satisfaction of losses or liabilities of the Corporation, losses and liabilities incurred by the Corporation under a Cross-Margining Agreement, including Cross-Guaranty Payments and Cross-Guaranty Repayments made by the Corporation pursuant to Cross-Guaranty Agreements, Cross-Margining Payments and Cross-Margining Repayments made by the Corporation pursuant to Cross-Margining Agreements, arising from the failure of a Defaulting Member or the Member's Permitted Margin

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<sup>‡</sup> FICC has identified the following guidelines, which are intended to be illustrative, but not limited, where the premium will not be imposed: management will look to see whether the premium results from unusual or non-recurring circumstances where management believes it would not be appropriate to assess the premium. Examples of such circumstances are a member's late submission of trade data for comparison that would otherwise reduce the margined position if timely submitted or an unexpected haircut or capital charge that does not fundamentally change its risk profile.

Affiliate to satisfy an obligation to the Corporation, the failure of a Cross-Guaranty Defaulting Member to satisfy an obligation to a Cross-Guaranty Counterparty, the failure of a Cross-Margining Participant or its Cross-Margining Affiliate to satisfy an obligation to an FCO that has been guaranteed by the Corporation, the failure of a Cross-Margining Participant to satisfy a Reimbursement Obligation under Rule 43, or the failure of an FCO to make payment under a Cross-Margining Guaranty or otherwise incident to the clearance and settlement business of the Corporation including losses and liabilities arising other than from such failure of such Member, and to providing the Corporation with a source of collateral both to meet its temporary financing needs, including, without limitation, any financing that is obtained by the Corporation to hold securities pending settlement, and to ensure the satisfaction of Netting Members' settlement obligations. If the Corporation pledges, hypothecates, encumbers, borrows, or applies any part of the Clearing Fund deposits, or other collateral that it has received from Members to satisfy, in whole or in part, any liability, obligation, or liquidity requirement, for more than 30 days, the Corporation, at the Close of Business on the thirtieth day (or on the first Business Day thereafter), shall consider the amount used to meet such financing as an actual loss to the Clearing Fund and immediately allocate such loss in accordance with ~~Section 8~~ Section 7 of this Rule.

If a loss or liability incurred by the Corporation is allocated to a Member pursuant to ~~Section 7~~ of this Rule, a Member that is a Cross-Margining Participant incurs a Reimbursement Obligation to the Corporation pursuant to Section 3 of Rule 43, under a Cross-Margining Agreement, a Member that is a Cross-Margining Beneficiary Participant incurs an obligation to reimburse the Corporation pursuant to Section 7 of Rule 43, a Member that is a Cross-Guaranty Defaulting Member incurs an obligation to reimburse the Corporation pursuant to Section 2 of Rule 41 or a Member that is a Cross-Guaranty Beneficiary Member incurs an obligation to reimburse the Corporation pursuant to Section 5 of Rule 41, the Corporation may apply the portion of the: (a) Member's deposit to the Clearing Fund, or (b) in the case of a Netting Member that is an ~~Category 1~~ Inter-Dealer Broker Netting Member, the deposit required pursuant to Section 7 of this Rule, necessary to satisfy such allocation or obligation. In this regard, the Corporation may apply any cash, draw against any letters of credit, and liquidate any securities deposited by the Member, and may do any or all of the foregoing whether or not the Member is treated as insolvent under Rule 22.

\* \* \*

## **RULE 5 - COMPARISON SYSTEM**

\* \* \*

### Section 4 – Submission Size Alternatives

The following requirements shall apply to all trades that are submitted to the Corporation by a Member, including all trades that are submitted on behalf of any Affiliate or Executing Firm.

A trade with a par value of \$50 million or less must be submitted to the Corporation in the full size and in the exact amount in which the trade was executed. Trades for over \$50

million must be submitted in an equivalent number of \$50 million trades and a single tail for the remaining amount.

Notwithstanding the above: (i) GCF Repo Transactions must be submitted exactly as executed, and (ii) when the Corporation deems it appropriate and advises Members of such, Members using the Interactive Submission Method may submit Full-Sized ~~€~~Trades exactly as executed, for amounts over \$50 million. The Corporation shall establish procedures governing the manner in which the Corporation shall compare Full-Sized Trades to trades submitted in pieces and the order in which such comparison shall occur. The Corporation shall inform Members of these procedures by notice prior to their implementation.

The Corporation may discipline a Member for a violation of this section in accordance with Rule 48.

\* \* \*

## **RULE 15 - SPECIAL PROVISIONS FOR CERTAIN NETTING MEMBERS**

### **Section 1—Reserve**

#### **Section 12 -Submitting Members**

A Submitting Member that has submitted to the Corporation pursuant to these Rules data on a trade on behalf of an Executing Firm shall be obligated to the Corporation pursuant to these Rules (including, if the trade is netted and settled through the Netting System, as regards the calculation of payment of Required Fund Deposit and Funds-Only Settlement Amounts) in connection with such trades to the same degree as if it itself had executed such trades.

#### **Section 23 - Inter-Dealer Broker Netting Members**

At the request of the Corporation, each Inter-Dealer Broker Netting Member shall submit to the Corporation, data on all of its trades in Eligible Netting Securities, including trades done with Non-Members. Such request may include such data as is necessary to indicate, by reference number, a buy side that matches in par amount, and is bound to, one or more sell sides, and vice versa. Moreover, for every trade done by an Inter-Dealer Broker Netting Member ~~or an Inter-Dealer Broker Netting Member~~ involving an Eligible Netting Security, including trades done with Non-Members, the identity of each buy side and sell side counterparty shall be disclosed to the Corporation, in the form and manner prescribed by the Corporation for such disclosure. The requirements of this paragraph shall not apply to Repo Transactions.

If an Inter-Dealer Broker Netting Member fails to comply with the requirements of this Section, the Corporation, in its sole discretion, may treat such Member for purposes of these Rules as if it were a Dealer Netting Member, upon providing notice of such to the Member.

Notwithstanding anything to the contrary elsewhere in these Rules, including Rule 1, trades by an Inter-Dealer Broker Netting Member, acting as a broker, with a Non-Member that clears all of its trades in Eligible Netting Securities through one or more Netting Members

(excluding Netting Members that are Inter-Dealer Brokers), each of which in turn submits all of such trades of the Inter-Dealer Broker with the Non-Member to the Corporation for netting and settlement through the Netting System, shall be treated by the Corporation for purposes of determining the status of the Inter-Dealer Broker Netting Member as if they were trades with a Netting Member.

\* \* \*

## **RULE 17 - NETTING AND SETTLEMENT OF NETTING-ELIGIBLE AUCTION PURCHASES**

\* \* \*

### **Section 5 – Reserve**

#### **Section 56 - Priority of Allocation of Auction Purchase Deliveries**

The first priority of allocation of deliveries by the Corporation of Netting-Eligible Auction Purchases received from a Federal Reserve Bank, and the first priority of allocation of deliveries by the Corporation of Netting Eligible Auction Purchases received from Freddie Mac, shall be, on a CUSIP Number-by-CUSIP Number basis, to ensure that every Netting Member with a Net Long Position (including a Revised Net Long Position) comprised in whole or part of Netting-Eligible Auction Purchases receives from the Corporation an amount of Auction Purchases equal to the lesser of such Member's Net Long Position or the amount of its Auction Purchases.

The second priority of allocation of deliveries by the Corporation of Netting-Eligible Auction Purchases received from a Federal Reserve Bank, and the second priority of allocation of deliveries by the Corporation of Netting Eligible Auction Purchases received from Freddie Mac, shall be, on a CUSIP Number-by-CUSIP Number basis, to deliver such Auction Purchases, on an equal basis in \$50 million increments, to each Member with a Net Long Position that remains unfilled.

#### **Section 67 – Responsibility for Netting-Eligible Auction Purchases**

A Netting Member shall be responsible pursuant to the Rules for a Locked-In Trade submitted with respect to it by a Federal Reserve Bank or Freddie Mac even if the data contains errors or omissions, and the Netting Member shall be liable as principal to the Corporation for all Locked-in-Trades reported to the Corporation by a Federal Reserve Bank or Freddie Mac.

#### **Section 78 – Freddie Mac Auctions**

Notwithstanding anything to the contrary in these Rules, Rules 4 and 13 shall not apply to Freddie Mac in its capacity as Issuer of Eligible Freddie Mac Securities.

\* \* \*



**FIXED INCOME CLEARING CORPORATION**  
**MORTGAGE-BACKED SECURITIES DIVISION**  
**CLEARING RULES**

## RULE 1 - DEFINITIONS

\* \* \*

### **Clearing System**

The term "Clearing System" means the (i) System of services provided by the Corporation to Persons that are Members thereof, including Trade Comparison, TBA Netting, Pool Comparison Pool Netting, and settlement, as applicable, and (ii) operations carried out by the Corporation in the course of providing such services, as provided in these Rules.

### **Close of Business**

**The term "Close of Business" means, with respect to a Business Day, 5:00 p.m. on such Business Day, unless otherwise determined by the Corporation as the result of delay in the close of FedWire.**

\* \* \*

### **Excess Capital Ratio**

The term "Excess Capital Ratio" means the quotient, rounded to the nearest ~~whole~~ two decimal places, resulting from dividing the amount of a Member's VaR Charge by the amount of its Excess Capital that it maintains.

\* \* \*

\* \* \*

## RULE 3 - ONGOING MEMBERSHIP REQUIREMENTS

\* \* \*

### **Section 2 - Reports by Clearing Members**

\* \* \*

(h) for any Member which has satisfied the financial requirements imposed by the Corporation pursuant to these Rules by means of a guaranty of its obligations by an Affiliate, Financial Statements and/or the reports or information of its parent company meeting the requirements specified in subparagraphs (a) through (g) of this Section 2, as applicable.

Moreover, any Member that has provided to the SEC any notice required pursuant to paragraph (e) of the SEC's Rule 15c3-1 shall notify the Corporation of the provision of such notice, and shall furnish the Corporation with a copy of such notice, by the ~~close of business~~ **Close of Business** on the day that it so provides such notice to the SEC.

\* \* \*

RULE 4-CLEARING FUND AND LOSS ALLOCATION

\* \* \*

Section 2 –Required Fund Deposit

\* \* \*

(d) The lesser of \$5,000,000 or 10 percent of the ~~Total Amount~~ Required Fund Deposit arrived at above, with a minimum of \$100,000, must, be made and maintained in cash, with the remaining portion of the ~~Total Amount~~ Required Fund Deposit to be made and maintained in the form specified in Section 3 of this Rule.

\* \* \*

Section 3 - Form of Deposit

Subject to the provisions of Section 2 of this Rule 4 governing the computation of a Member's Required Fund Deposit, and the limitations of this Section 3, Section 3a and Section 3b, a Clearing Member's deposits to the Clearing Fund may be in the form of:

(a) cash; and

(b) an open account indebtedness fully secured by Eligible Clearing Fund Securities.

The lesser of \$5,000,000 or 10 percent of the ~~deposit~~ Required Fund Deposit made to the Clearing Fund, with a minimum of \$100,000, must be made and maintained in cash. A minimum of 40 percent of the Member's Required Fund Deposit shall be made in the form of cash and/or Eligible Clearing Fund Treasury Securities.

\* \* \*

Section 5 - Use of Deposits and Payments

The use of the Clearing Fund deposits and assets and property on which the Corporation has a lien shall be limited to satisfaction of losses or liabilities of the Corporation, including Cross-Guaranty Payments and Cross-Guaranty Repayments made by the Corporation pursuant to Cross-Guaranty Agreements, arising from the failure of a Defaulting Member to satisfy an obligation to the Corporation, the failure of a Cross-Guaranty Defaulting Member to satisfy an obligation to a Cross-Guaranty Counterparty, or otherwise incident to the clearance and settlement business of the Corporation including with respect to losses and liabilities arising other than from such failure of such Member to meet unexpected or unusual requirements for funds that represent a small percentage of the Clearing Fund, and to provide ing the Corporation with a source of collateral both to meet its temporary financing needs, including, without limitation, (through an appropriate financing method determined by the Corporation in its sole discretion) for any financing that is obtained by the Corporation to hold securities pending settlement, and to ensure the satisfaction of Members' settlement obligations

~~and to meet unexpected or unusual requirements for funds that represent a small percentage of the Clearing Fund.~~ If the Corporation pledges, hypothecates, encumbers, borrows, or applies any part of the Clearing Fund deposits, or other collateral that it has received from Members to satisfy, in whole or in part, any liability, obligation, or liquidity requirement, for more than 30 days, the Corporation, at the ~~close of business~~ Close of Business on the thirtieth day (or on the first Business Day thereafter), shall consider the amount used to meet such financing as an actual loss to the Clearing Fund and immediately allocate such loss in accordance with Section 7 of this Rule. Whenever the Clearing Fund is charged for any reason other than to satisfy a clearing loss attributable to a Member solely from that Member's Clearing Fund deposit, each Member will be provided the reasons for the charge.

\* \* \*

#### Section 8 - Timing of Payment of Deposit

The initial Required Fund Deposit of a Clearing Member shall be required to be deposited into the Clearing Fund by the ~~close of business~~ Close of Business on the Business Day immediately prior to the Business Day on which each such Person becomes a Clearing Member in accordance with the Corporation's procedures.

\* \* \*

**FIXED INCOME CLEARING CORPORATION**  
**MORTGAGE-BACKED SECURITIES DIVISION**  
**EPN RULES**

## ARTICLE I DEFINITIONS AND GENERAL PROVISIONS

### Rule 1. Definitions

Unless the context requires otherwise, the terms defined in this Rule shall, for all purposes of these EPN Rules, have the meanings herein specified.

#### **Account**

The term "Account" means an account in a designated location in the Corporation's electronic communication system for the EPN Service, maintained by the Corporation on behalf of an EPN User pursuant to Section 1 of Rule 1 of ~~Article VII~~ Article II.

\* \* \*

#### **EPN Eligible Security**

The term "EPN Eligible Security" means a security which the Corporation has determined to be eligible for the Corporation's EPN Service, pursuant to Rule 2 of this ~~Article VI~~ Article I.

#### **EPN Procedures**

The term "EPN Procedures" means EPN Procedures of the Corporation adopted pursuant to Rule 11 of ~~Article X~~ Article V.

#### **EPN Rules**

The term "EPN Rules" means these rules of the Corporation relating to the EPN Service, ~~located in Articles VI, VII, VIII, IX and X of the Rules~~, as amended from time to time.

#### **EPN Service**

**The term "EPN Service" means the Corporation's electronic pool notification service that enables EPN Users to electronically communicate pool information, via Messages, to other EPN Users, as described in the Corporation's EPN Rules and EPN Procedures.**

#### **EPN User**

The term "EPN User" means any person qualified pursuant to these EPN Rules to participate in the EPN Service.

#### **EPN User Agreement**

The term "EPN User Agreement" means the agreement between the Corporation and an EPN User specified in Section 3 of Rule 1 of ~~Article VIII~~ Article III.

## **EPN User Profile**

The term "EPN User Profile" means information submitted to the Corporation by an applicant on the form specified in the Corporation's EPN Procedures.

## **EPN Service**

~~The term "EPN Service" means the Corporation's electronic pool notification service that enables EPN Users to electronically communicate pool information, via Messages, to other EPN Users, as described in the Corporation's EPN Rules and EPN Procedures.~~

## **FHLMC**

The term "FHLMC" means the Federal Home Loan Mortgage Corporation, a corporate instrumentality of the United States of America.

\* \* \*

## **Membership and Risk Management Committee**

~~The term "Membership and Risk Management Committee" means the Membership and Risk Management Committee established by the Board of Directors of the Corporation.~~

## **Messages**

~~The term "Messages" means all electronic messages sent or received, as detailed in the EPN Procedures.~~

## **Message Detail Report**

The term "Message Detail Report" means the report furnished by the Corporation pursuant to Section 2 of Rule 2 of ~~Article VII~~ Article II reflecting the details of all Messages during the current Business Day.

## **Message Summary Report**

The term "Message Summary Report" means the report furnished by the Corporation pursuant to Section 3 of Rule 2 of ~~Article VII~~ Article II, which provides summary information for all Messages during the current Business Day.

## **Messages**

The term "Messages" means all electronic messages sent or received, as detailed in the EPN Procedures.

\* \* \*

**Operations and Planning Committee**

~~The term “Operations and Planning Committee” means the Fixed Income Operations and Planning Committee established by the Board of Directors of The Depository Trust & Clearing Corporation.~~

\* \* \*

Rule 2. EPN Eligible Securities

The Corporation shall, from time to time, consistent with its operational capabilities and regulatory requirements, determine which Mortgage-Backed Securities and other Securities are eligible for services provided by the Corporation in the EPN Service. The existence at any time of provisions in these EPN Rules relating to Messages in particular Securities does not itself constitute a designation of such Securities as EPN Eligible Securities, and until such designation is made no Messages between EPN Users involving such Securities shall be subject to these EPN Rules. Should the Corporation discontinue the eligibility of Messages in any Security, the Corporation shall give notice thereof to all EPN Users, and from and after the effective date specified in the notice, the Corporation shall cease to render services with respect to Messages ~~in~~ in such Security. A determination of ineligibility hereunder with respect to Messages in any Security shall be subject to appeal under Rule 7 of ~~Article X~~ Article V by any EPN User. A security of an issuer that is listed on the Office of Foreign Assets Control (“OFAC”) list of specially designated nationals distributed by the U.S. Department of the Treasury, or of an issuer that is incorporated in a country that is on the OFAC list of countries shall not be an “Eligible Security”.

\* \* \*

**ARTICLE II MESSAGES PROCESSED BY THE CORPORATION**

Rule 1. Accounts

Sec. 1. Maintenance of Accounts

**The Corporation shall maintain one or more Accounts for each EPN User.**

\* \* \*

Rule 2. Reports

Sec. 1. Availability of Reports.

The Corporation shall process data available to the Corporation as of the close of each Business Day and shall make available for each Account maintained by an EPN User, the **Reports reports** outlined below. Such reports shall be available at a time specified in the EPN Procedures.



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### ARTICLE III EPN USERS

#### Rule 1. Requirements Applicable to EPN Users

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#### Sec. 5. EPN Users Bound by EPN Rules, EPN Procedures and Applicable Laws

Subject to the provisions of Rule 12 of ~~Article X~~ Article V, the use of the facilities of the Corporation by an EPN User shall constitute such EPN User's agreement with the Corporation and with all other EPN Users to be bound by the provisions of, and by any action taken or order issued by the Corporation pursuant to, these EPN Rules and any amendment thereto, and to such EPN Procedures as the Corporation from time to time may adopt. In addition, in connection with their use of the Corporation's services, an EPN User must comply with all applicable laws, including applicable laws relating to securities, taxation, and money laundering.

\* \* \*

#### Sec. 7. Indemnification

EPN Users shall indemnify the Corporation against any loss, reasonable cost or expense, damage or liability arising out of the performance, non-performance or misperformance of the Corporation's duties except to the extent that the Corporation's conduct violated the standard of care set forth in Section 1 of Rule 6 of ~~Article X~~ Article V. In the event that any loss, cost, expense, damage or liability with respect to which the Corporation is entitled to indemnification pursuant to this Section 7 is attributable to one or more identifiable EPN Users, an assessment shall be made against such EPN User(s). In the event that any such loss, cost, expense, damage or liability cannot be attributed to one or more identifiable EPN Users, an assessment shall be made against EPN Users generally in proportion to their relative usage of the facilities of the Corporation (based on fees for services) during the period in which such loss, cost, expense, damage or liability was incurred.

\* \* \*

#### Rule 2. Ceasing to Maintain an Account Voluntary Withdrawal of an EPN User

##### Sec 1. Ceasing to Maintain an Account

An EPN User may cease to maintain an Account with the Corporation by providing the Corporation with 10 days written notice of such cessation; however the Corporation, in its discretion, may accept such cessation within a shorter notice period. Such cessation will not be effective until accepted by the Corporation. The Corporation's acceptance shall be evidenced by a notice to EPN Users announcing the EPN ~~Users~~ User's cessation and the effective date of the cessation of the EPN User's Account; provided, however, that no cessation of an Account shall be effective until the EPN User has made arrangements satisfactory to the Corporation for the

payment of any unpaid obligations with respect to such Account, and no cessation of an Account maintained for an EPN User shall be effective until the EPN User has made arrangements satisfactory to the Corporation for the handling of Messages for unprocessed transactions in Eligible Securities at the time of such cessation.

\* \* \*

Rule 3. When the Corporation Declines to Act for an EPN User

Sec. 1. Ceasing to Act for an EPN User

The Corporation may at any time cease to act for an EPN User with respect to any Account or set of Accounts, a particular Message or Messages generally, in the event that (a) the EPN User has failed to perform its obligations to the Corporation or other EPN Users under these EPN Rules or the EPN Procedures, (b) the Corporation has determined that the EPN User no longer meets all of the qualifications of Sections 1, 2 and 3 of Rule 1 of this ~~Article VIII~~ Article III, (c) the Corporation has reasonable grounds to believe that the EPN User has been responsible for any fraudulent or dishonest conduct, or has made a material misstatement or omitted to state a material fact in any statement to any officer or employee of the Corporation in connection with any transaction processed or service furnished by the Corporation, (d) the EPN User has materially violated any of these EPN Rules or the EPN Procedures or any agreement with the Corporation, (e) the Corporation has reasonable grounds to believe that the EPN User is in or is approaching financial difficulty or will otherwise be unable to meet its obligations to the Corporation or other EPN Users, (f) the EPN User is also a Participant in the Corporation and the Corporation has ceased to act for that Participant; or (g) the Corporation has reasonable grounds to believe that such ceasing to act is necessary for the protection of investors or other EPN Users or to facilitate the orderly and continuous performance of the Corporation's services.

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## ARTICLE V MISCELLANEOUS

\* \* \*

Rule 6 Limitation on Liability

Sec. 1. Limitation on Liability

Notwithstanding any other provision in the EPN Rules:

\* \* \*

Rule 7. Hearings

Sec. 1. Requests for a Hearing.

        An Interested Person may, when permitted by these EPN Rules, request a hearing by filing with the Secretary of the Corporation, within five Business Days from the date on which

the Corporation informed it of an action or proposed action of the Corporation with respect to the Interested— Person, a written request for a hearing setting forth (a) the action or proposed action of the Corporation with respect to which the hearing is requested and (b) the name of the representative of the Interested Person who may be contacted with respect to the hearing. Within seven Business Days after the Interested Person files such written request with the Corporation, or two Business Days in the case of action taken against the Interested Person involving a denial of membership application, or ceasing to act for an EPN User, the Interested Person shall submit to the Corporation a clear and concise written statement setting forth with particularity the action or proposed action of the Corporation with respect to which the hearing is requested, the basis for objection to such action, whether the Interested Person intends to attend the hearing and whether the Interested Person chooses to be represented by counsel at the hearing.

\_\_\_\_\_If the written statement contests the Corporation’s determination that the Interested Person has violated an EPN Rule or EPN Procedure, the statement must specifically admit or deny each violation alleged and detail the reasons why the EPN Rules or EPN Procedures alleged to have been violated are being contested. Any alleged violation not specifically denied shall constitute an admission to that violation. The Corporation may deny the statement if it fails to set forth a prima facie basis for contesting the violation.

\_\_\_\_\_The failure of the Interested Person to file the written request referred to above within the time period required by these EPN Rules and/or the failure of the Interested Person to submit the written statement within the time period specified above will be deemed to be an election to waive the right to a hearing. The Corporation shall notify the Interested Person in writing of the date, place and hour of the hearing at least five Business Days prior to the hearing.

\_\_\_\_\_If the Corporation has assessed a fine against an Interested Person and such Interested Person desires to dispute the fine and complies with the requirements described above regarding filing a written request for a hearing and a written statement, the Corporation shall automatically conduct a review of the disputed fine. The Corporation may examine the written statement submitted by the Interested Person and/or arrange a meeting with the Interested Person to discuss the disputed fine. If the Corporation determines to waive the fine, it shall inform the Board of Directors or an authorized committee thereof of its determination and its reasons thereof. The Board may, in its discretion, determine to reinstate any fine waived by the Corporation. If the Corporation determines not to waive the fine as a result of the review process, the Interested Person shall be entitled to a hearing pursuant to this Rule. The Corporation shall advise the Interested Person of the result of the review process.

## Sec. 2. Minor Rule Violations.

\_\_\_\_\_A hearing requested in connection with a violation of the EPN Rules of the Corporation for which a fine may be assessed against the Interested Person in an amount not to exceed \$5,000 (a “Minor Rule Violation”), shall be held before a panel of three officers of the Corporation (a “Minor Violation Panel”). The members of the Minor Violation Panel shall select one of their numbers to be the chairman, and the chairman shall be the person in charge of the conduct of the hearing. At the hearing, an officer of the Corporation shall present the case against the Interested Person. The Interested Person shall have an opportunity to be heard and may be represented by counsel.

\_\_\_\_\_A record shall be kept of the hearing and the costs associated with the hearing may, in the discretion of the Corporation, be charged in whole or in part to the Interested Person if the decision is adverse to the Interested Person. The Minor Violation Panel shall provide the Interested Person with a written statement of its decision no later than 10 business days after the conclusion of the hearing. If the decision of the Minor Violation Panel is adverse to the Interested Person, the Interested Person may request a further hearing under Section 3 of this Rule by filing a written request with the Secretary of the Corporation within five business days of receipt of such written statement. The Corporation shall notify the Interested Person of the date, time and place of the hearing at least five business days prior to the hearing. The failure of the Interested Person to submit the written request within the required time period shall be deemed an election to waive the right to any further hearing. A Minor Rule Violation as defined in this Rule shall be deemed a minor rule violation within the meaning of Rule 19d-1(c)(2) under the Securities Exchange Act of 1934, as amended (the "Act"), and this Rule shall be deemed a "plan" within the meaning thereof. The action imposed by the Corporation shall not be considered "final" for purposes of paragraph (c) (1) of Rule 19d -1 of the Act if the fine does not exceed \$2,500, and the Interested Person does not seek an adjudication pursuant to Section 4 of this Rule 7.

### Sec. 3 Hearings

\_\_\_\_\_A hearing requested in connection with any matter which is not deemed a "~~minor rule violation~~" **Minor Rule Violation** as defined in Section ~~23~~ of this Rule, and any hearing requested in connection with an appeal of the decision of the Minor Violation Panel, shall be before a panel (hereinafter the "Panel") of three individuals drawn from members of the Board of Directors, or their designees. The members of the Panel shall be selected by the Chairman of the Board.

\_\_\_\_\_Notwithstanding the above, the Panel shall not include any individual representing the Interested Person against which the proposed action is to be taken nor any person who had responsibility for the action or proposed action of the Corporation as to which the hearing relates.

\_\_\_\_\_At the hearing, the Interested Person shall be afforded an opportunity to be heard and may be represented by counsel if the Interested Person has so elected pursuant to Section 1 of this Rule. A record shall be kept of the hearing, and the cost associated with the hearing may, in the discretion of the Panel, be charged in whole or in part to the Interested Person in the event that the decision at the hearing is adverse to the Interested Person.

### Sec. 4 Hearing Procedure

\_\_\_\_\_The Panel shall advise the Interested Person of its decision and the specific grounds upon which the decision is based, within ten Business Days after the conclusion of the hearing. If the decision of the Panel shall have been to impose a disciplinary sanction on the Interested Person in accordance with these EPN Rules, or to affirm any action taken by the Corporation with respect to a denial of a membership application or ceasing to act for an EPN User, a notice of decision setting forth (a) any act or practice in which the Interested Person has been found to have engaged, or which the Interested Person has been found to have omitted, (b) the specific provision(s) of the EPN Rules of the Corporation or of the EPN User's agreements with the

Corporation which any such act or practice or omission to act has been deemed to violate, and (c) the sanction imposed and the reasons thereof shall be furnished to the Interested Person. A copy of the Panel's notice of decision shall also be furnished to the Chairman of the Board.

#### Sec. 5. Reversal or Modification of Panel Decisions

\_\_\_\_\_ Decisions of the Panel are final, but the Board of Directors may in its discretion modify any sanction or reverse any decision of the Panel that is adverse to the Interested Person. The reversal or modification by the Board of Directors of any action previously taken against the Interested Person pursuant to these EPN Rules shall not invalidate the acts of the Corporation or its officers or directors taken prior to such reversal or modification.

#### Sec. 6. Finality of Corporation Action

\_\_\_\_\_ Any action or proposed action of the Corporation as to which an Interested Person has the right to request a hearing shall be deemed final and effective (a) when the Interested Person stipulates to the taking of such action by the Corporation, (b) upon the expiration of the applicable time period provided in these EPN Rules for the filing of a written request for a hearing or a written statement pursuant to Section 1 of this Rule, or (c) if a hearing has been held pursuant to this Rule, when the Corporation gives notice to the Interested Person of the Panel's decision.

#### Sec. 7. Alternative Procedures

\_\_\_\_\_ The Corporation may at any time establish procedures for a hearing not otherwise provided for by these EPN Rules with respect to any action or proposed action of the Corporation.

### ~~SEC. 6. FINALITY OF CORPORATION ACTION~~

Rule ~~18~~. RESERVED FOR FUTURE USE

Rule ~~29~~. Governing Law and Captions

Sec. 1. The interpretation, construction and operation of these EPN Rules and the respective rights and obligations of the Corporation and EPN Users shall be determined under the laws of New York applicable to contracts executed and performed therein.

Sec. 2. Captions to any Rules are for information and guidance only, are not part of any EPN Rule and are to be given no consideration in applying or construing any EPN Rules.

Rule ~~310~~. Amendment of EPN Rules

The Corporation shall promptly notify all EPN Users and registered clearing agencies of any proposal it has made to change, revise, add or repeal any Rule, and of the text or a brief

description of the proposed Rule and its purpose and effect. All EPN Users and registered clearing agencies may submit to the Corporation for its consideration their comments with respect to any such proposal, and such comments shall be filed with the Corporation's records and copies thereof delivered to the Securities and Exchange Commission.

**Rule 411.** EPN Procedures

The Corporation from time to time shall adopt and distribute to EPN Users EPN Procedures with respect to matters specifically addressed in these EPN Rules and such other matters as the Corporation deems necessary or desirable in connection with the provision of services hereunder. Each EPN User shall be bound by such EPN Procedures and any amendment thereto in the same manner as it is bound by the provisions of these EPN Rules. EPN Users shall be given prompt notice in writing of any amendment to the EPN Procedures. In the event that, in the Corporation's reasonable judgment, any such amendment may materially increase the risks to EPN Users in the Corporation, the Corporation shall notify EPN Users of such amendment in writing at least 15 days prior to its effectiveness.

**Rule 512.** Waivers, Etc.

The time fixed by these EPN Rules, the EPN Procedures or any regulations issued by the Corporation for the doing of any act or acts may be extended or the doing of any act or acts required by these EPN Rules, the EPN Procedures or any regulations issued by the Corporation may be waived or any provision of these EPN Rules, the EPN Procedures or any regulations issued by the Corporation may be suspended by the Board of Directors or by any Officer of the Corporation having a rank of Vice President or higher whenever, in its or his judgment, such extension, waiver or suspension is necessary or expedient.

A written report of any such extension, waiver or suspension (other than an extension of time of less than eight hours), stating the pertinent facts, the identity of the person or persons who authorized such extension, waiver or suspension and the reason such extension, waiver or suspension was deemed necessary or expedient, shall be promptly made and filed with the Corporation's records and shall be available for inspection by any EPN User during regular business hours on business days. Any such extension or waiver may continue in effect after the event or events giving rise thereto but shall not continue in effect for more than 60 calendar days after the date thereof unless it shall be approved by the Board of Directors within such period of 60 calendar days.

**Rule 613.** Offices of the Corporation

Reports shall be available to, and business with the Corporation shall be transacted by, EPN Users at the Corporation's offices in New York, New York and also at such other locations as the Corporation from time to time may designate. Each EPN User shall make arrangement satisfactory to the Corporation for receipt of reports and the transaction of other business with the Corporation at one or more of such locations.

Rule ~~7~~14. Limitations of Liability

(a) Notwithstanding any affiliation between the Corporation and any other entity, including another clearing agency, except as otherwise expressly provided by written agreement between the Corporation and such other entity:

(i) the Corporation shall not be liable for any obligations of such other entity nor shall any fund or any other assets of the Corporation be available to such other entity (or any person claiming through such other entity) for any purpose, and no Participant or EPN User shall assert against the Corporation any claim based upon any obligations of any other entity to such Participant or EPN User; and

(ii) such other entity shall not be liable for any obligations of the Corporation nor shall any fund or any other assets of such other entity be available to the Corporation (or any person claiming through the Corporation) for any purpose, and no Participant or EPN User shall assert against such other entity any claim based upon any obligations of the Corporation to such Participant or EPN User.

(b) Notwithstanding the Corporation being the owner of both the Mortgage-Backed Securities Division and the Government Securities Division,

(i) the Mortgage-Backed Securities Division shall not be liable for any obligations of the Government Securities Division nor shall any fund or other assets of the Mortgage-Backed Securities Division be available to the Government Securities Division or any Government Securities Division Member for any purpose, and no Government Securities Division Member shall assert against the Mortgage-Backed Securities Division any claim based upon any obligations of the Government Securities Division to such Government Securities Division Member; and

(ii) the Government Securities Division shall not be liable for any obligations of the Mortgage-Backed Securities Division nor shall the clearing fund or other assets of the Government Securities Division be available to the Mortgage-Backed Securities Division or any Participant or EPN User for any purpose, and no Participant or EPN User shall assert against the Government Securities Division any claim based upon the obligations of the Mortgage-Backed Securities Division to such Participant or EPN User.

(c) ~~¶~~The Corporation may impose fines or other sanctions on a Participant or an EPN User for a violation of this Rule 14 in accordance with Rule 3 of this ~~Article X~~ Article V.

Rule ~~8~~15. Signatures

The Corporation may, at its option, in lieu of relying on an original signature, rely on a signature as if it were (and the signature shall be considered and have the same effect as) a valid and binding original signature in the following circumstances:

If such signature is transmitted, recorded or stored by any electronic, optical, or similar means (including but not limited to telecopy, imaging, xeroxing, electronic mail, electronic data interchange, telegram, or telex).

Rule **916**. Notices

Any notice pursuant to these EPN Rules from the Corporation to an Interested Person shall be sufficiently served on such Interested Person if the notice is in writing, and is mailed to the Interested Person's office address, is sent via electronic mail to the Interested Person's electronic mail address or is transmitted by facsimile machine to a facsimile machine located either in the Interested Person's office or elsewhere as designated by such Interested Person. Any notice to an Interested Person, if mailed, shall be deemed to have been given when deposited in the United States Postal Service, with postage thereon prepaid, directed to the Interested Person at its office address, and if sent via electronic mail, shall be deemed given when routed to the electronic mail address of the Interested Person. Any notice to an Interested Person, if transmitted by facsimile machine as provided above, shall be deemed to have been given when such transmission is verified on the facsimile machine of the Corporation as having been transmitted.

Notwithstanding anything in these EPN Rules to the contrary, the Corporation may distribute notices to all Interested Persons by posting such notices on the Corporation's website. The Corporation shall deem a notice delivered once such notice is successfully posted to the website.

Rule **1017**. Forms

In connection with any transactions or matters handled through, with or by the Corporation under or pursuant to the EPN Rules, such forms of lists, notices and other documents shall be used as the Corporation may from time to time prescribe, and additions to, changes in and elimination of any such forms may be made by the Corporation at any time in its discretion. In addition, any information required to be delivered to the Corporation by use of any such forms may be delivered by the use of any media, as shall be prescribed in the EPN Procedures or by the Corporation from time to time.

Rule **1118**. Release of Processing Data

(a) Absent valid legal process or as provided in this Rule, the Corporation will only release Processing Data relating to a particular EPN User to such EPN User.

(b) The Corporation, in its sole discretion, may release Processing Data relating to EPN Users to regulatory organizations and self-regulatory organizations, as defined in the Securities Exchange Act of 1934, as amended, or other comparable Federal or State statutes, as well as to clearing organizations affiliated with or designated by contract markets trading specific futures products under the oversight of the Commodity Futures Trading Commission. Provided, however, that nothing in this Rule shall prevent the Corporation from releasing Processing Data to others, provided that such data shall be in a form as to prevent the disclosure, whether patently or in easily discernible format, of proprietary and/or confidential financial, operational or trading data of a particular EPN User or inappropriately arranged groups of EPN Users-.

(c) With respect to the foregoing, the release of any Processing Data shall be conditioned upon either (i) a written request, or (ii) the execution of a written agreement with the Corporation, whichever is appropriate in the Corporation's discretion and the Corporation, in its



discretion, shall establish the conditions under which such data shall be released and the fees, if any, to be paid for such data.

(d) The term "Processing Data" shall mean, for the purposes of this Rule, messages, transmissions and other data which is received by the Corporation in the processing of MBS allocation and pool information communications between EPN Users or such data, reports or summaries thereof, which may be produced as a result of processing such data.

(e) The foregoing notwithstanding, this Rule is not intended to, nor shall it be deemed to be in contravention, or a limitation, of the Corporation's obligations, as a self-regulatory organization, to cooperate and share data with other regulatory and self-regulatory organizations for regulatory purposes.

**Rule ~~12~~19.** Lists to be Maintained

The Corporation shall maintain a list of all EPN Users, which list shall be made available to an EPN User upon request.

**Rule ~~13~~20.** Distribution Facilities

If deemed necessary, the Corporation will establish distribution facilities which may, subject to such regulations as the Corporation may from time to time prescribe, be used by EPN User for the distribution of papers, documents and other material incidental to the ordinary course of business.

The Corporation assumes no responsibility whatever for the form or content of any papers, documents or other material (other than items prepared by it) placed in the boxes in its distribution facilities assigned to each EPN User or otherwise handled by the Corporation; nor does the Corporation assume any responsibility for any improper or unauthorized removal from such boxes or from the Corporation's facilities of any such papers, documents or other material, including items prepared by the Corporation.

Each EPN User shall send an authorized representative to the Corporation's distribution facilities at frequent intervals to pick up documents or material made available to the EPN User by the Corporation.

The Corporation's distribution facilities will remain open on Business Days during the hours specified by the Corporation.

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